Trade Developments

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USAID Supports the Dominican Republic's Apparel Sector in Transition

Project Summary

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FROM THE AMERICAN PEOPLE

The Dominican Republic depends heavily on a single export – apparel – to a single market, the United States. In 2003, the sector employed nearly 120,000 workers, and industries and services supplying the apparel industry employed several times as many. The industry had developed–and thrived–in an era of global quotas on trade in textiles and apparel that restrained exports to the U.S. and European markets from many of the world's largest producers, including China and India. Quotas also encouraged inward foreign investment in countries like the Dominican Republic, which had ready access to the U.S. market by virtue of both geography and unilateral U.S. trade preferences designed to spur Caribbean development.

But, with the quotas set to end in January 2005, the Dominican Republic, like many other apparel-dependent developing countries, faced an uncertain future. Should it simply brace itself for the economic hit and job losses expected to occur? Would it be useful to know how bad the disruption would likely be? Could anything be done to strengthen its competitive position vis-à-vis the export powerhouses? What advantages and disadvantages might accrue if the country were to negotiate a free trade agreement with the United States?

Analyzing the Risk

Public and private sector leaders in the Dominican Republic sought help from USAID in all of these areas. USAID/Santo Domingo and USAID's Bureau for Economic Growth, Agriculture, and Trade (EGAT) together tapped Nathan Associates Inc., under the global Support for Trade Capacity-Building Activities task order, to help the Dominicans prepare for the new competitive climate by assessing how and to what extent the end of the global quota regime would affect employment and exports.

In January 2003 the United States and five Central American countries announced negotiations toward a free trade agreement (FTA) to eliminate barriers to trade in industrial goods, services, and agriculture, and to ease restrictions on foreign investment. This had enormous implications for the Dominican Republic. Evaluating their interests in an FTA with the United States became urgent: their competitors in Central America were already a step ahead of them, and an agreement that excluded the Dominican Republic could worsen Dominican producers' competitive position in the U.S. market. The Nathan analysis added two scenarios. In one the US-CAFTA is concluded without the Dominican Republic; in the other the Dominican Republic joins the negotiations and is part of the resulting FTA, giving the country permanent preferential access to replace the unilateral preference accorded under the Caribbean Basin Economic Recovery Act (CBERA).

Conducted with close cooperation from government and the private sector, the Nathan analysis concluded that the end of the quota regime would result inevitably in some worker dislocation, but a means for staunching job loss was clear. Joining the US-CAFTA negotiations would help preserve thousands of jobs in the Dominican Republic's apparel industry.[1]

Call to Action

This was no "desk study." It mobilized government, industry, and public support for the negotiation of an FTA with the United States. Nathan Associates and USAID briefed the Dominican President, as well as industry leaders, on the study. Shortly thereafter, the Dominican Republic formally requested that the U.S. Government include the country in the US-CAFTA negotiations. On August 4, 2003, the U.S. Trade Representative notified the U.S. Congress of its intent to include the Dominican Republic in free trade negotiations.

With the conclusion of the US-CAFTA-DR negotiations in August 2004, Dominican industry and government leaders sought additional analysis to assess the impact of the agreement as negotiated. Other changes in the Dominican economy also needed to be factored in, including devaluation of the peso, increases in the minimum wage, and rising energy costs. The reassessment concluded that implementation of the textile provisions in the US-CAFTA-DR could significantly help Dominican producers in regaining ground in the U.S. market. In addition, it could sustain not only nearly 24,000 jobs in the apparel sector, but also two to three times as many in supporting industries and services–jobs that otherwise would be lost as a result of heightened competition from large-scale, low-cost Asian producers.[2]

Equally important, the report pointed out–in time for the government to take corrective action–policies affecting wages, electricity prices, and taxes in the free zones that could significantly harm the competitiveness of the apparel sector.

These results have been disseminated broadly to government and industry leaders, and to the public at large, through press conferences, televised interviews, and open debates at universities and think tanks. Though the Dominican legislature has yet to vote on the agreement, USAID's contribution has replaced conjecture and widespread suspicion of the FTA with facts and tangible assessments.

Endnotes

[1] Peter Minor, Economic and Employment Impacts on the Dominican Republic of Changing Global Trade Rules for Textiles and Apparel, (Nathan Associates Inc.: June 2003), available at www.tcb-project.com

[2] Peter Minor, Dominican Republic Textile and Apparel Export Competitiveness, (Nathan Associates, Inc.: November 2004), available at www.tcb-project.com.

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